MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BFN2044 – BANK MANAGEMENT

(All sections / Groups)

22 OCTOBER 2018
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 3 pages with 4 questions only.
2. Attempt ALL FOUR questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answer in the Answer Booklet provided.

Question 1 (25 marks)

(a) RHS Group holds total assets of RM25 billion and equity capital of RM2 billion and has just posted an ROA of 0.95 percent.

(i) What is the financial firm's ROE?

(2 marks)

(ii) Suppose RHS Group finds its ROA climbing by 25 percent, with assets and equity capital unchanged. What will happen to its ROE? Why?

(7 marks)

(iii) On the other hand, suppose the bank's ROA drops by 25 percent. If total assets and equity capital hold their present positions, what change will occur in ROE?

(7 marks)

(b) Suppose that stockbrokers have projected that JJ Bank will pay a dividend of RM2.50 per share on its common stock at the end of the year; a dividend of RM3.25 per share is expected for the next year, and RM4.00 per share in the following two years. The risk-adjusted cost of capital for banks in JJ Bank's risk class is 15 percent. If an investor holding JJ Bank's stock plans to hold that stock for only four years and hopes to sell it at a price of RM50 per share. Calculate the present value of the bank's stock today.

(9 marks)

Question 2 (25 marks)

(a) (i) How do you measure the dollar interest-sensitive gap and relative interest-sensitive gap?

(5 marks)

(ii) What is the interest sensitivity ratio? Should it be consistent with the dollar interest-sensitive gap and relative interest-sensitive gap?

(3 marks)

(b) Farmville Financial reports a net interest margin of 2.75 percent in its most recent financial report, with total interest revenue of RM95 million and total interest costs of RM82 million.

(i) What volume of earning assets must the bank hold?

(3 marks)

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(ii) Suppose the bank's interest revenues rise by 5 percent and its interest costs and earnings assets increase by 9 percent. What will happen to Farmville's net interest margin?

(4 marks)

(c) A bond currently sells for RM970 based on a par value of RM1,000 and promises RM90 in coupon payment for three years before being retired. Yields to maturity on comparable-quality securities are currently at 12 percent.

i) Calculate the bond's duration.

(7 marks)

ii) Suppose interest rates in the market fall to 10 percent. What will be the approximate percent change in the bond's price?

(3 marks)

Question 3 (25 marks)

(a) Briefly explain the principal sources of liquidity demand and supply for a bank.

(10 marks)

(b) Suppose that Airbank Berhad estimates its total deposits and total loans for the next six months in Ringgit millions to be as the following:

Estimated Total Deposits (RM millions)	Estimated Total Loans (RM millions)
112	87
132	95
121	102
147	113
151	101
139	124

Based on the above information, calculate:

(i) The estimated change in deposit for the next six months. (5 marks)
(ii) The estimated change in loans for the next six months. (5 marks)
(iii) The estimated liquidity deficit or surplus for this bank. (5 marks)

Question 4 (25 marks)

(a) What are the principal types of loans made by banks? (5 marks)

(b) What is meant by 6 Cs of Credits in banking terms? (6 marks)

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(c) Calculating key ratios will enabled the loan officers and credit analysts to determine whether they should approved of decline the request for financing from a company.

As a credit analyst, you are given the following information for DXX Sdn Bhd.

Business Assets (RM Million)	
Cash account	60
Accounts receivable	155
Inventories	128
Fixed assets	286
Miscellaneous assets	96
Total	725
Liabilities and Equity (RM million)	
Short-term debt:	108
Accounts payable	117
Notes payable	325
Long-term debt (bonds)	15
Equity capital	160
Total	725

Annual revenue and expense item (RM million)	
Net sales	650
Cost of goods sold	485
Wages and salaries	58
Interest expense	28
Overhead expenses	29
Depreciation expenses	12
Selling, administrative, and other expenses	28
Before-tax net income	6
Taxes owed	3
After-tax net income	3

Based on the above information, calculate the expense control ratios for this company.
(14 marks)

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